



Programme du congrès de l'A.C.P.C. 1997

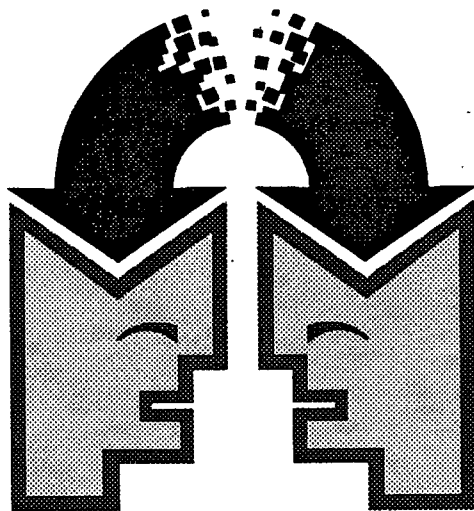
29 au 31 mai 1997
Delta St. John's Hotel and
Conference Centre
St-Jean (Terre-Neuve)

**Les nombreux visages de
la comptabilité**

1997 CAAA conference program

May 29 to June 1 1997
Delta St. John's Hotel and
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St. John's, Newfoundland

**The many faces of
accounting**



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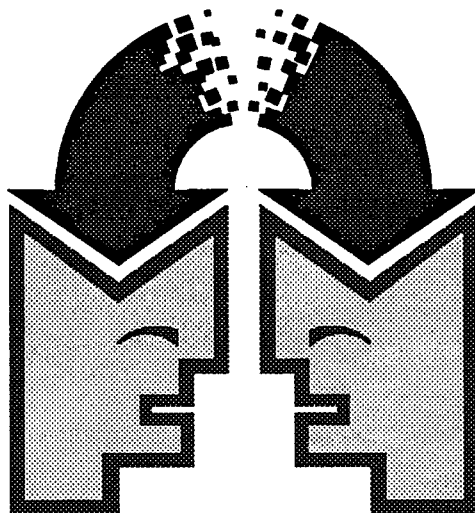
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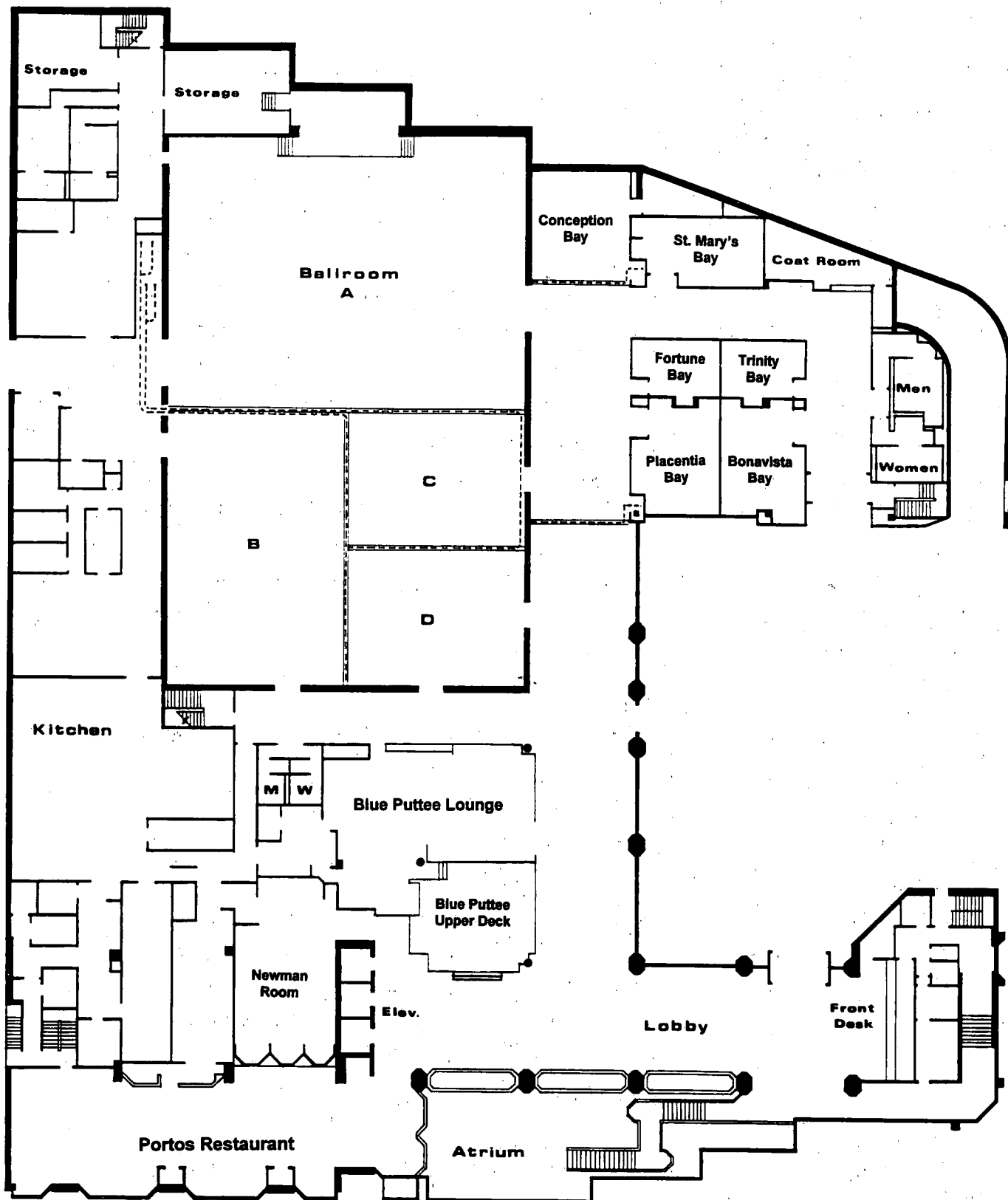
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Jeudi 29 mai

Thursday, May 29

16:00 - 19:00

Inscription

Salle : Crush Lobby

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Programme du congrès:



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Sacs:



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Conference program:

Tote bags:

Registration

Location: Crush Lobby

19:00 - 21:30

Réception de bienvenue

Salle : Salons C/D

Commanditaires



The Certified General Accountants Association of
Newfoundland



The Institute of Chartered Accountants of
Newfoundland



Memorial University of Newfoundland

Sponsors

Welcome reception

Location: Salons C/D

Vendredi 30 mai

Friday, May 30

7:30 - 8:30

Petit-déjeuner

Salle : Crush Lobby

Commanditaire



John Wiley & Sons Canada Limited

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Breakfast

Location: Crush Lobby

8:00 - 17:00

Inscription

Salle : Crush Lobby

Commanditaires

Programme du congrès:



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Conference program:

Registration

Location: Crush Lobby

Sacs:

Tote bags:



Irwin/McGraw-Hill Ryerson Limited

8:30 - 8:45

Mot de bienvenue

Salle : Salons C/D

Président du congrès

Gary Entwistle
(University of Saskatchewan)

Conference chair

Opening remarks

Location: Salons C/D

8:45 - 9:05

Mot de l' AAA

Salle : Salons C/D

Président de l'AAA

Joseph Schultz, Jr.
(Arizona State University)

AAA President

Message from the AAA

Location: Salons C/D

Vendredi 30 mai

Friday, May 30

9:05 - 10:15

Plénière - première partie

Le comptable professionnel
du millénaire nouveau :
le rôle des formateurs
comptables

Président : Howard Teall
(Wilfrid Laurier University)

Salle : Salons C/D

Participants:

Steven Glover, FCA
(L'Institut canadien des comptables agréés/ The
Canadian Institute of Chartered Accountants)

David Harrison, PhD
(L'Association des comptables généraux licenciés du
Canada/ The Certified General Accountants'
Association of Canada)

Richard Michalski, CMA
(La Société des comptables en management du
Canada/ The Society of Management Accountants of
Canada)

Plenary session - Part I

The Accounting Professional in
the New Millennium:
Implications for Accounting
Educators

Chair: Howard Teall
(Wilfrid Laurier University)

Location: Salons C/D

10:15 - 10:30

Pause santé

Salle : Crush Lobby

Commanditaire

Sponsor

Refreshment break

Location: Crush Lobby

Doane Raymond 

Exposition de livres

Book display

10:30 - 12:00

Séances parallèles

**Séance 1A : La divulgation
volontaire**

Président : Murray Hilton
(University of Manitoba)

Commentateur : William Salatka
(Wilfrid Laurier University)

Salle : Salons C/D

***Voluntary Disclosure of Derivative Securities by Publicly-
Traded Canadian Corporations***

Steve Fortin & David Downie (University of Waterloo)

***The Efficacy of Management Earnings Forecasts in
Prospectuses: Evidence and Policy Implications***

Bruce McConomy (Carleton University)

***Corporate Environmental Disclosure Strategies:
Determinants, Costs and Benefits***

Denis Cormier (Université du Québec à Montréal) &
Michel Magnan (École des Hautes Études Commerciales de
Montréal)

Concurrent sessions

**Session 1A: Voluntary
Disclosure**

Chair: Murray Hilton
(University of Manitoba)

Discussant: William Salatka
(Wilfrid Laurier University)

Location: Salons C/D

10:30 - 12:00

**Séances parallèles
(suite)**

**Séance 1B : La recherche en
vérification**

Président : Dan Simunic
(University of British
Columbia)

Commentateur : Richard
Rennie
(University of Regina)

Salle : Newman Room

**Séance 1C : Le contrôle de la
gestion**

Président : Alan Richardson
(Queen's University)

Commentateur : Danny Szpiro
(Concordia University)

Salle : Conception Bay

***Auditor-Client Management Negotiations and Relative
Expertise: Model, Corroboration and Predictions***

Michael Gibbins & Steven Salterio (University of Alberta)

***Audit Group Decision Making: The Impact of Time Pressure
and Group Support Systems***

Vicky Arnold (University of Massachusetts, Dartmouth),
Steve Sutton (Bryant College), Stephen Hayne (Arizona
State University West) & Charles Smith (University of
Montana)

Fairness as a Nonmonetary Performance Incentive

Theresa Libby (Wilfrid Laurier University)

***Responsibility Accounting and Controllability: Determinants
of Performance Evaluation Systems for Plant Managers in
Canada***

Michael Shih (Toronto/National University of Singapore)

Trend and Seasonal Adjustment for Effective Budgeting

Patrick Farrell (Acadia University) & Gary Spraakman
(York University)

**Concurrent sessions
(continued)**

**Session 1B: Auditing
Research**

Chair: Dan Simunic
(University of British
Columbia)

Discussant: Richard Rennie
(University of Regina)

Location: Newman Room

**Session 1C: Management
Control**

Chair: Alan Richardson
(Queen's University)

Discussant: Danny Szpiro
(Concordia University)

Location: Conception Bay

12:15 - 13:45

Déjeuner du président

Salle : Salon B

Commanditaire



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Canada / The Certified General
Accountants' Association of Canada

Janet Miller-Pitt

Sponsor

President's luncheon

Location: Salon B

Vendredi 30 mai

Friday, May 30

14:00 - 15:30

Séances parallèles

Séance 2A : Enjeux en matière d'analyse d'un investissement

Président : Peter Clarkson
(Simon Fraser University)

Commentatrice : Irene Gordon
(Simon Fraser University)

Salle : Salons C/D

Séance 2B : Résultats, appointements des cadres et marchés financiers

Président : Toni Nelson
(University of Lethbridge)

Commentateur : Brian Lee
(Concordia University)

Salle : Newman Room

The Importance of Accounting Information in Investment Analysis

Gaétan Breton (Université du Québec à Montréal) &
Richard Taffler (City University Business School)

Information Collection in the IPO Market: An Exploratory Analysis of Coverage Initiation

Sarah Mavrinac (University of Western Ontario)

Are Preferred Shares Debt or Equity?: Some Canadian Evidence

Alastair Murdoch (University of Manitoba)

On the Use of Intra-Industry Information Transfers to Improve Earnings Forecasts

William Baber & Krishna Kumar (The George Washington University) & Jong-dae Kim (Choong-Buk National University, South Korea)

Accounting Earnings and Executive Compensation: The Role of Earnings Persistence

William Baber & Krishna Kumar (The George Washington University) & Sok-Hyon Kang (Carnegie-Mellon University)

Incentive and Taxes of Stock Ownership vs. Option-Based Executive Compensation Contracts

Martin G. H. Wu (New York University)

Concurrent sessions

Session 2A: Issues in Investment Analysis

Chair: Peter Clarkson
(Simon Fraser University)

Discussant: Irene Gordon
(Simon Fraser University)

Location: Salons C/D

Session 2B: Earnings, Executive Compensation, and the Capital Markets

Chair: Toni Nelson
(University of Lethbridge)

Discussant: Brian Lee
(Concordia University)

Location: Newman Room

15:30 - 15:45

Pause santé

Salle : Crush Lobby

Commanditaire



The Institute of Chartered Accountants of Ontario

Exposition de livres

Sponsor

Book display

Refreshment break

Location: Crush Lobby

Vendredi 30 mai

Friday, May 30

15:45 - 17:00

**Assemblée générale
annuelle de l'A.C.P.C.**

Salle : Salon C/D

Membres de l'A.C.P.C.

CAAA Members

**CAAA Annual General
Meeting**

Location: Salon C/D

18:00 - 20:30

Réception des membres

Salle: Blue Puttee

Commanditaire

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Members' reception

Location: Blue Puttee



L'Institut canadien des comptables agréés /
The Canadian Institute of Chartered
Accountants

Samedi 31 mai

Saturday, May 31

7:30 - 8:30

Petit-déjeuner

Salle : Crush Lobby

Commanditaire



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Breakfast

Location: Crush Lobby

8:00 - 12:00

Inscription

Salle : Crush Lobby

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Conference program:

Registration

Location: Crush Lobby



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8:45 - 10:15

Séances parallèles

Séance 3A : La gestion des coûts

Présidente : Margaret Shackell
(University of Michigan)

Commentateur : Anthony
Atkinson
(University of Waterloo)

Salle : Salons C/D

Changes in Cost Management in a CIM Environment

Paul Scarborough (Brock University) & Michiharu Sakurai
(Senshu University)

Transaction Cost Economics as a Predictor for Management Accounting Practices at the Hudson's Bay Company, 1860 to 1914

Gary Spraakman (York University) & Robert Davidson
(Queen's University)

Concurrent sessions

Session 3A: Cost Management

Chair: Margaret Shackell
(Michigan)

Discussant: Anthony
Atkinson
(University of Waterloo)

Location: Salons C/D

8:45 - 10:15

**Séances parallèles
(suite)**

**Séance 3B : Enjeux en
matière de l'évaluation
d'entreprises**

Président : Efrim Boritz
(University of Waterloo)

Commentateurs : Gordon
Richardson (University of
Waterloo);
Peter Clarkson (Simon Fraser
University);
Yue Li (University of Toronto)

Salle : Newman Room

**Séance 3C : Recherche
mettant à contribution des
étudiants canadiens en
comptabilité**

Présidente : Angela Downey
(University of Lethbridge)

Commentatrice : Lois
Etherington
(Simon Fraser University)

Salle : Conception Bay

***Alternative Valuation Models and the Valuation Parameters
of Property-Casualty Insurers' Share Prices***

Elizabeth Demers (Stanford University)

***The Value of Fundamental Analysis in the Canadian Stock
Market***

Paul Brockman & Charles Mossman (University of
Manitoba) & Dennis Olson (UNBC)

Inferring Equity Values from Analysts' Earnings Forecasts

Theodore Sougiannis, Elisabeth Oltheten & Takashi
Yaekura (University of Illinois at Urbana-Champaign)

***An Analysis of the Association of Demographic Variables with
the Cognitive Moral Development of Canadian Accounting
Students***

Linda E. Thorne (York University)

***Graduating Accounting Students and Professional
Accounting Employment: Canadian Evidence***

Steven Salterio (University of Alberta)

***Auditors' Judgement Performance of a Going-Concern Task:
The Mediating Effect of Informational Abundance and a
Decision Aid***

Anamitra Shome (Concordia University) & Mohamed
Ibrahim (Concordia University and The Hong Kong
Polytechnic University)

**Concurrent sessions
(continued)**

**Session 3B: Issues in Firm
Valuation**

Chair: Efrim Boritz
(University of Waterloo)

Discussants: Gordon
Richardson (University of
Waterloo);
Peter Clarkson (Simon Fraser
University);
Yue Li (University of Toronto)

Location: Newman Room

**Session 3C: Research Using
Canadian Accounting
Students**

Chair: Angela Downey
(University of Lethbridge)

Discussant: Lois Etherington
(Simon Fraser University)

Location: Conception Bay

10:15 - 10:30

Pause santé

Salle : Crush Lobby

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Refreshment break

Location: Crush Lobby

Samedi 31 mai

Saturday, May 31

10:30 - 11:45

Séances parallèles

**Séance 4A : La présentation
de l'information financière -
décisions et motifs**

Président : Alastair Murdoch
(University of Manitoba)

Commentateur : Toni Nelson
(University of Lethbridge)

Salle : Salons C/D

**Séance 4B : Ce qu'implique
la rédaction de manuels
pédagogiques**

Président : Richard Rennie
(University of Regina)

Salle : Newman Room

***Accounting-Based Debt Covenant, Loan Renegotiation and
Financial Reporting***

Ping Zhang (Wilfrid Laurier University)

***Firm Leverage and Discretionary Accounting Changes: An
Income Smoothing or Income Increasing Strategy***

Raafat Roubi & Sandra Felton (Brock University)

Participants:

Dick Chesley (Saint Mary's University)

Maureen Fizzell (Simon Fraser University)

Concurrent sessions

**Session 4A: Financial
Reporting - Decisions and
Motives**

Chair: Alastair Murdoch
(University of Manitoba)

Discussant: Toni Nelson
(University of Lethbridge)

Location: Salons C/D

**Session 4B: Textbook
Writing - What's Involved?**

Chair: Richard Rennie
(University of Regina)

Location: Newman Room

12:00 - 13:45

Déjeuner des membres

Salle : Salon B

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du Canada

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(CFO, Voisey's Bay Nickel Company Limited)

Members' luncheon

Location: Salon B

Samedi 31 mai

Saturday, May 31

14:00 - 15:30

Plénière - deuxième partie

Le comptable professionnel du
millénaire nouveau : la réponse
des formateurs

Président : Michael Gibbins
(University of Alberta)

Salle : Salons C/D

Participants:

Gary Sundem (University of Washington)

George Baxter (University of Saskatchewan)

Grant Russell (University of Waterloo)

Plenary session - Part II

The Accounting Professional in
the New Millennium:
Responses of Accounting
Educators

Chair: Michael Gibbins
(University of Alberta)

Location: Salons C/D

15:30 - 15:45

Mot de clôture

Salle : Salons C/D

Président du congrès

Conference chair

Gary Entwistle
(University of Saskatchewan)

Closing remarks

Location: Salons C/D

Dimanche 1^{er} juin

Sunday, June 1

8:00 - 12:30

Atelier sur l'éthique

Pratique courante et initiatives
pédagogiques en éthique
comptable

Salle : Conception Bay

Commanditaire



Centre for Accounting Ethics, University of Waterloo

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Ethics Workshop

Current Practice and
Educational Initiatives in
Accounting Ethics

Location: Conception Bay

RÉSUMÉS

ABSTRACTS

***Voluntary Disclosure of Derivative Securities
by Publicly-Traded Canadian Corporations***

Steve Fortin and David Downie (University of Waterloo)

This paper explores the voluntary disclosure of derivative securities in Canada. We focused our study on the identification of possible determinants of the disclosure decision. More specifically, some potential predictors are identified from the literature and correlated to the actual disclosure decision made by firms for their 1995 year end. Out of a sample of 110 firms identified as derivatives users in an independent survey, 65 percent disclosed information about their derivatives positions. The results show a significant association between firm size, competition level, SEC listing and disclosure at an individual level. Moreover, an association is outlined with a sub-population of auditors and with the sub-sample of firms from the mining industry. On an aggregate level, SEC listing and Competition remain significant. The Auditor sub-population is still significant even after controlling for the presence of the other predictors.

We believe that the significance of SEC listing provides evidence of proprietary costs related to derivatives disclosure. The sign of the competition variable is consistent with existing theory, but is highly correlated with the mining industry classification. We did not explain nor do we claim to have identified causal relationship. Instead, we identify some potential research questions to pursue based on these results.

**Vendredi 30 mai
Séance 1A : La divulgation
volontaire**

**10:30 - 12:00
Salons C/D**

**Friday, May 30
Session 1A: Voluntary
Disclosure**

***The Efficacy of Management Earnings Forecasts in Prospectuses:
Evidence and Policy Implications***

Bruce J. McConomy (Carleton University)

Canadian securities administrators have expressed concern with biased and inaccurate management earnings forecasts being included in Canadian prospectuses. This paper reviews prior research regarding management earnings forecasts and provides evidence detailing the bias and accuracy of a sample of such forecasts in Canadian prospectuses relative to several simple mechanical forecasting models. The results suggest that regulators should continue to support the voluntary disclosure of management earnings forecasts in prospectuses and other public-offering documents.

**Vendredi 30 mai
Séance 1A : La divulgation
volontaire**

**10:30 - 12:00
Salons C/D**

**Friday, May 30
Session 1A: Voluntary
Disclosure**

***Corporate Environmental Disclosure Strategies:
Determinants, Costs and Benefits***

Denis Cormier (Université du Québec à Montréal)
Michel Magnan (École des Hautes Études de Montréal)

In recent years, investors and stakeholders have become increasingly concerned about corporate practices with respect to the environment. In response to this demand for additional information, many firms have increased their level of environmental disclosure, especially in their annual report. While mostly unregulated per se, corporate environmental disclosure does have potential economic significance considering the lack of alternative information sources on the issue.

The purpose of this study is: (1) to identify determinants of corporate environmental disclosure and, (2) to measure the impact of corporate environmental disclosure on firm valuation. Results from a sample of Canadian firms for the 1986-1993 period show that environmental disclosure is systematic to a large extent and is valuation relevant. Key determinants of environmental disclosure include measures of proprietary costs and of information-gathering costs. The impact of corporate pollution on firm valuation is shown to be more negative with greater disclosure.

[Key words: Environmental disclosure, disclosure strategy, environmental accounting, pollution measure.]

Au cours des dernières années, les pratiques des entreprises en matière d'environnement sont devenues une préoccupation majeure des investisseurs et des partenaires socio-économiques. En réponse à cette demande pour de l'information additionnelle, plusieurs firmes ont choisi d'augmenter leur niveau de divulgation d'information environnementale, notamment dans leur rapport annuel. Contrairement aux états financiers, la divulgation d'information environnementale par les entreprises ne soit pas totalement réglementée. Toutefois, elle suscite un intérêt certain compte tenu des intérêts économiques en jeu et de la rareté des sources alternatives d'information.

Notre étude vise deux objectifs. Premièrement, il s'agit d'identifier les variables déterminant l'ampleur de la divulgation d'information environnementale dans le rapport des entreprises. Deuxièmement, nous tentons d'établir s'il existe un lien entre la divulgation d'information environnementale et la valeur boursière des entreprises. L'échantillon provient des rapports annuels d'entreprises canadiennes pour la période 1986-1993. Dans l'ensemble, nos résultats montrent que la divulgation d'information environnementale est systématique et peut avoir un effet sur la valeur de l'entreprise. L'asymétrie d'information entre investisseurs et dirigeants, de même que l'ampleur des coûts liés à la possession d'information environnementale et à la collecte d'information additionnelle par les actionnaires expliquent une portion significative du discours environnemental des entreprises. De plus, il est trouvé qu'une divulgation additionnelle d'information environnementale magnifie les coûts pour l'entreprise d'une mauvaise performance environnementale.

[Mots clés : stratégie de divulgation environnementale, comptabilité environnementale, pollution.]

The authors thank the *Canadian Academic Accounting Association* and the
Ordre des Comptables Agréés du Québec for their financial support.

Vendredi 30 mai
Séance 1A : La divulgation
volontaire

10:30 - 12:00
Salons C/D

Friday, May 30
Session 1A: Voluntary
Disclosure

***Auditor-Client Management Negotiations and Relative Expertise:
Model, Corroboration and Predictions***

Michael Gibbins and Steven Salterio (University of Alberta)

The subject of this paper is the auditor-client management negotiation process regarding financial accounting recognition and disclosure in the client's financial statements. In particular, we focus on the effects of relative auditor- and client-management expertise on that process. This paper initially develops a negotiation model that is intended to support empirical research. The model describes the negotiation process from awareness of the accounting/disclosure issue through to either negotiation or unilateral nonnegotiated solutions. The model then presents various accounting contextual factors that can affect the negotiation process. In the first results section, initial corroboration for the model is provided through a series of interviews with national office partners of public accounting firms and a meeting with members of the Canadian Emerging Issues Committee. A significant corroboration finding was the emphasis that participants put on the importance of relative expertise of the auditor- and client-management to the negotiations. Therefore, in the second results section, expertise-based predictions are presented to demonstrate the model's power to aid in empirical investigations. These predictions explore both the impact of expertise variations on the auditor-client management negotiation process and the interactive effects of other accounting contextual factors with expertise.

**Vendredi 30 mai
Séance 1B : La recherche
en vérification**

**10:30 - 12:00
Newman Room**

**Friday, May 30
Session 1B: Auditing
Research**

***Audit Group Decision Making: The Impact of Time Pressure
and Group Support Systems***

Vicky Arnold (University of Massachusetts, Dartmouth)
Charles A. P. Smith (University of Montana)
Stephen C. Hayne (Arizona State University West)
Steve G. Sutton (Bryant College)

In recent years a number of professional committees and audit researchers have voiced concerns over the increased time pressure auditors are facing due to a highly competitive audit market. While most of the related research has focused on the potential for omission of audit procedures, little attention has been given to the effects of increased time pressure on auditor judgments that must be made in an environment dominated by concurrent group decision processes and increasingly supported by information technology.

This paper reports on an experimental study designed specifically to examine the impact of time pressure on group decision making during completion of an audit judgment task. In phase I of the study, trained audit students working in groups completed a series of materiality judgments both under time pressure and in the absence of time pressure. In phase II of the study, the experiment was replicated with a second set of subjects only this time communication was assisted through the use of a group support system.

The results of phase I indicate that the groups became more efficient in their information search strategy, but chose to accelerate their decision making approach rather than alter the information load from the available cues. These actions are consistent with the underlying theory and resulted in a significant decrease in group decision quality under time pressure. Phase II yielded similar results for information processing, as well as indicating that use of the GSS led to slower processing of information cues and a corresponding increase in time required to reach a group decision.

**Vendredi 30 mai
Séance 1B : La recherche
en vérification**

**10:30 - 12:00
Newman Room**

**Friday, May 30
Session 1B: Auditing
Research**

Fairness as a Nonmonetary Performance Incentive

Theresa Libby (Wilfrid Laurier University)

This paper considers whether the use of a fair procedure in setting an unfavourable budget within a budget-based incentive contract motivates performance beyond the level of performance motivated by the incentive contract itself. A fair procedure is defined as the ability for the subordinate to voice an opinion about the budget that the superior intends to set and the provision of an explanation for the budget that is finally set. An unfavourable budget is defined as a budget target that is higher than the one preferred by the subordinate.

This study differs from traditional participation in budgeting studies in that subordinates are asked to voice their opinions about the budget, but in the end, the superior assigns a different budget to them. Subordinates' opinions do not influence the final budget that is set, although half of them receive an explanation for their lack of influence over the budget and half of them do not. This study extends what is already known about the effect of a voice with influence process (i.e., the participative process as operationalized in most studies of participation in budgeting) to the effect of a voice without influence process on performance.

The results of the laboratory experiment described in this paper indicate that, when subordinates' opinions do not influence the budget that the superior sets, significant performance improvements are only realized when the subordinate's ability to voice an opinion about the budget was combined with the superior's provision of an adequate explanation for the budget that was set. These results are especially important when resources are scarce and budgets are constrained. In such cases the superior, due to economic factors beyond his control, may not be able to assign the budget that the subordinate requests. The subordinate may interpret the situation in pseudo-participative terms, assuming that the superior either ignored the opinion expressed or was insincere in his efforts to understand the subordinate's point of view. Providing subordinates with both a voice and an adequate explanation for an unfavourable budget may be one solution to the problem of reduced productivity that might otherwise result.

Vendredi 30 mai
Séance 1C : Le contrôle de
la gestion

10:30 - 12:00
Conception Bay

Friday, May 30
Session 1C: Management
Control

***Responsibility Accounting and Controllability:
Determinants of Performance Evaluation Systems for Plant Managers in Canada***

Michael Shih (University of Toronto/National University of Singapore)

The study investigates how firms design performance evaluation systems for plant managers. Plant managers can be evaluated primarily on cost control or profit. Which approach to adopt can be framed as a choice to evaluate these managers primarily on one variable (cost) or two (cost and sales). Results from agency theory show that the weight placed on a variable in performance evaluation depends on its informativeness and precision. This suggests the following hypotheses: the tendency to evaluate a plant manager primarily on profit rather than cost (1) decreases with the importance of marketing in stimulating sales, (2) increases with the importance of product quality in stimulating sales, (3) increases with the importance of customer service in stimulating sales, and (4) decreases with the extent to which the plant manager is evaluated on specific measures of product quality and customer service.

Using a probit model, these hypotheses are tested with data collected from large Canadian manufacturing firms. The results are strongly supportive of three of the hypotheses and weakly supportive of one. Contrary to conventional wisdom, more firms are found to evaluate plant managers primarily on profit than primarily on cost control.

Vendredi 30 mai
Séance 1C : Le contrôle de
la gestion

10:30 - 12:00
Conception Bay

Friday, May 30
Session 1C: Management
Control

Trend and Seasonal Adjustment for Effective Budgeting

Patrick Farrell (Acadia University)

Gary Spraakman (York University)

This paper was prompted by the sharp difference between what management accounting textbooks recommended for incorporating trend and seasonal effects into budgeting and what was inferred by time series analysis. First the management accounting textbook pronouncements were reviewed. Second, the time series techniques appropriate for budgeting were reviewed with the use of examples. Then the results of a survey of Canadian retail firms were discussed; these firms largely adhered to the practices advocated by management accounting textbooks. They did not use the time series techniques that have been available for three decades to improve budgeting effectiveness. The paper was concluded with recommendations for management accounting textbooks and practice in regard to trend and seasonal adjustment for effective budgeting.

**Vendredi 30 mai
Séance 1C : Le contrôle de
la gestion**

**10:30 - 12:00
Conception Bay**

**Friday, May 30
Session 1C: Management
Control**

***The Importance of Accounting Information
in Investment Analysis***

Gaétan Breton (Université du Québec à Montréal)
Richard Taffler (City University Business School)

This paper applies computer-aided content analysis methodology to explore the sets of information taken into account by stockbroking analysts in arriving at a particular investment recommendation.

Our goal is twofold (1) to assess the importance of accounting information in the decision process of investment analysts and (2) to explore the value of a certain type of content analysis methodology to identify the different sets of information leading to investment decisions and recommendations.

Adopting multivariate analysis of variance, the paper concludes that accounting information is used by analysts although it is not the only nor perhaps the most important source. As such, our results may have some implication for theory and for the standard setting process.

The paper suggests that analysts generally are also concerned with the firm's management and strategy and its trading environment rather than only with accounting-based measures in arriving at their recommendations. However, our analysis suggests potential differences across firms on the importance to be given to a specific item of information. This heterogeneity will have to be explored in further research.

Vendredi 30 mai
Séance 2A : Enjeux en
matière d'analyse d'un
investissement

14:00 - 15:30
Salons C/D

Friday, May 30
Session 2A: Issues in
Investment Analysis

***Information Collection in the IPO Market:
An Exploratory Analysis of Coverage Initiation***

Sarah Mavrinac (University of Western Ontario)

The role of the sell-side investment analyst in facilitating information collection and transfer in the capital markets is now well documented. Levels of coverage and following have been associated with variation in price informativeness (Bushan, 1989b), market liquidity (Brennan & Subrahmanyam, 1994), pricing inefficiencies (Brennan, Jegadeesh, & Swaminathan, 1993), and the firm's cost of capital (Botosan, 1994). Newly published studies now routinely refer to analyst coverage as an indicator of the richness of the firm's information environment (Brennan & Hughes, 1990). However, despite the apparent consequence of analyst coverage, relatively little is understood about either the process motivating coverage or the factors influencing coverage change. This paper attempts to address this gap in the literature's knowledge base by offering both rich description and exploratory analysis of the coverage phenomenon. Specifically, the paper examines the firm and market conditions influencing change in the level of analyst coverage, i.e., the initiation of coverage, provided to 'newly public' firms whose market condition is characterized by extreme uncertainty.

A distinguishing feature of this work is its adoption of a dynamic research methodology which allows observation and analysis of not only the levels of coverage received by newly public firms but also the likelihood and timing of coverage onset. The study constructs an analytic technique which describes coverage onset as a stochastic 'jump' process, with one set of parameters controlling the likelihood of coverage, a second set explaining the average height of the jump, and a third set dictating the time in each stable state. This 'jump' analysis is supported by a simple model of analyst-following which describes levels of coverage received as the equilibrium outcome of aggregate demand and supply forces, e.g., the size of the potential investor market, the precision of investor beliefs, the economic benefit of private information use, post-offering performance, and the cost of information acquisition and analysis. The model also recognizes the potential influence of 'hot' periods of IPO activity and the constraints these might place on analyst supply. Last, the model attempts to recognize the influence that differences in firm 'reputation' and information credibility might have on coverage levels.

In general, the empirical results support the equilibrium description of coverage *levels*. However, the firm-specific 'demand/supply' factors offer little explanation of variation in the *likelihood* or *timing* of coverage. The probability of coverage onset and the speed of analyst commitment appear to be inversely related to levels of market activity and to the level of 'certification' received from prestigious third party examiners like the firm underwriter.

Vendredi 30 mai
Séance 2A : Enjeux en
matière d'analyse d'un
investissement

14:00 - 15:30

Salons C/D

Friday, May 30
Session 2A: Issues in
Investment Analysis

Are Preferred Shares Debt or Equity?: Some Canadian Evidence

Alastair Murdoch (University of Manitoba)

I test the appropriateness of new accounting standards that would treat some kinds of preferred shares as debt rather than equity. I develop a new model to examine whether capital markets view the (systematic) risk of preferred shares to be more like the risk of debt or more like the risk of common equity. The proposed model is compared to a traditional model tested on 1985 to 1994 data of forty-four companies that trade on the Toronto Stock Exchange and issued preferred shares during that period. I confirm that debt is substantially less risky than common shares. The data suggests that preferred shares, even retractable ones, are at least as risky as common shares. These results do not support the view that preferred shares should be classified as liabilities.

Vendredi 30 mai
Séance 2A : Enjeux en
matière d'analyse d'un
investissement

14:00 - 15:30
Salons C/D

Friday, May 30
Session 2A: Issues in
Investment Analysis

***On the Use of Intra-Industry Information
Transfers to Improve Earnings Forecasts***

William R. Baber* and Krishna R. Kumar (The George Washington University)
Jong-Dae Kim (Choong-Buk University, South Korea)

This study considers the extent that intra-industry information transfers — in particular, earnings disclosures by firms in the same industry — improve quarterly earnings forecasts. We address three issues. First, we document the potential for interfirm information transfers in earnings forecasting by examining correlations in quarterly time-series across firms within an industry. Next, we consider the extent that such correlations can be used in earnings forecast models to improve the accuracy of out-of-sample earnings forecasts. Finally, we examine relations between forecast errors and security price reactions during periods when earnings are disclosed in order to investigate whether forecasts using the information transfers better reflect market expectations.

We focus on earnings forecast errors of early announcers within an industry as the information signal, and consider its role in improving earnings forecasts of later announcers. We consider three benchmark earnings forecasts, a seasonal random walk model, Foster's (1977) seasonal auto-regressive model, and Value Line analysts' forecasts. The potential usefulness of early announcers' earnings forecasts errors in improving late announcers' earnings forecasts is greatest for the seasonal random walk forecast and least for analysts' forecasts. When forecast accuracy is examined out-of-sample, we find forecast improvements for firms where significant correlations exist between early and late announcers' forecast errors. However, statistically significant improvements occur only for the random walk and Foster model forecasts and not for the analysts' forecasts.

Finally, investigations of relations between forecast errors and security price reactions to the late announcers' earnings disclosures indicate that correlations are lower for forecasts that consider information transfers, even when these information transfers are potentially useful and when these information transfers result in improved forecast accuracy. Our explanation for this paradox is that intra-industry information enhances the prediction of transitory, rather than permanent, earnings. Additional analyses support this explanation.

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**Vendredi 30 mai
Séance 2B : Résultats,
rendez-vous des cadres et
marchés financiers**

**14:00 - 15:30
Newman Room**

**Friday, May 30
Session 2B: Earnings,
Executive Compensation,
and the Capital Markets**

***Accounting Earnings and Executive Compensation:
The Role of Earnings Persistence***

William R. Baber* & Krishna R. Kumar (The George Washington University)
Sok-Hyon Kang (Carnegie-Mellon University)

This study investigates the extent that relations between accounting earnings and chief executive officer compensation depend on earnings persistence, where persistence is defined in terms of whether the firm's earnings time-series is permanent or transitory. The analysis draws on two streams of research. The first finds that relations between accounting earnings and security returns are conditional on earnings persistence. Another literature demonstrates that accounting earnings have an important role in determining executive compensation.

We adapt models used in prior studies which investigate how relations between security returns and accounting earnings vary with earnings persistence to address two relations implied by the analysis. First, we predict that the strength of relations between unexpected accounting earnings and executive compensation changes, varies directly with the extent that accounting earnings are permanent versus transitory. Second, we predict increasing weight on earnings changes, and decreasing weight on earnings levels, as earnings become more persistent. Prior studies indicate that earnings persistence is considered in setting security prices, and therefore we expect the hypothesized relations for cash (salary and cash bonus), but not for stock-based compensation (stock options).

Results for a cross-sectional analysis of 1992 and 1993 compensation paid to CEOs of 712 U.S. firms are generally consistent with these expectations.

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**Vendredi 30 mai
Séance 2B : Résultats,
rendements des cadres et
marchés financiers**

**14:00 - 15:30
Newman Room**

**Friday, May 30
Session 2B: Earnings,
Executive Compensation,
and the Capital Markets**

***Incentives and Taxes of Stock Ownership Versus Option-Based
Executive Compensations***

Martin G. H. Wu (New York University)

This paper provides a corrective to the perception that employee stock options reduce the premium in compensating an executive for incentive risk because they eliminate the downside risk. We show that, to induce a given managerial action more options are needed than stocks and hence the incentive risk with those options is higher than that with those stocks. This implies that the risk-averse executive will demand a higher risk premium with options than with stock ownership. Consequently, shareholders prefer stock ownership to stock options.

The tax implications of this correction are also discussed.

**Vendredi 30 mai
Séance 2B : Résultats,
appointements des cadres et
marchés financiers**

**14:00 - 15:30
Newman Room**

**Friday, May 30
Session 2B: Earnings,
Executive Compensation,
and the Capital Markets**

Changes in Cost Management in a CIM Environment

Paul Scarborough (Brock University)
Michiharu Sakurai (Senshu University)

Computer integrated manufacturing [CIM] dominates the planning activities of many North American manufacturing and service businesses even though actual implementation remains several years off. This paper looks at how the move to factory automation (FA) and CIM changed accounting practice in Japan. It adds to our understanding of the Japanese experience as well as our growing understanding of how managerial accounting changes in the modern production environment. In particular, it exposes some underlying relationships which may lead to development of testable models for the research literature.

For example, we indicate that the qualities of the employees are likely to be a driving force in the use and effectiveness of accounting methods. The accounting literature usually assumes that accounting techniques are neutral in the sense of being equally usable by different groups of employees: we suggest the contrary. A last, but overarching, concern is the tension between cost measurement and cost reduction as implicit management accounting goals. Our examination of these two goals shows important differences in the roles of management accounting between the US and Japan which probably exist even from company to company in North America, but are less observable in the domestic context. We attempt to make a link between the different implicit goals, the qualities of the employees, and the affinity for certain accounting techniques.

In this paper, we use the results of our fieldwork and survey research to discuss three aspects of cost management systems under CIM: changes in traditional cost management, new techniques for cost management, and the construction of cost management systems for software costs.

In traditional cost management systems, the role of standard costing for cost control has been decreasing for assembly-oriented industries. Conversely, the importance of budgeting has been increasing in the CIM environment. The use of variable costing has been increasing for contribution margin analysis and profit planning due to the change in the cost structure which accompanies CIM.

There are several new techniques becoming important in CIM, most importantly target costing. Coupled with standard costing, target costing has been used very widely by many Japanese companies — mainly for managing direct costs. Although ABC is used by major American companies to improve overhead allocation, Japanese companies believe that DCOPLS or ABM is more effective for cost reduction.

These results are consistent with the idea that Japanese firms have a strong tendency towards cost management as opposed to cost measurement. In several instances [DCOPLS, for example] they use techniques which are known to be less precise measures of product cost in order to direct the behaviour of employees towards certain goals. Thus, cost accounting is tightly integrated with the organization's strategic mission. In North America, in contrast, the cost accounting system is believed to be more independent of the strategic mission and dominated by concerns about precision in measurement.

Samedi 31 mai
Séance 3A : La gestion des
coûts

8:45 - 10:15
Salons C/D

Saturday, May 31
Session 3A: Cost
Management

Transaction Cost Economics As a Predictor for Management Accounting Practices at the Hudson's Bay Company, 1860 to 1914

Gary Spraakman (York University)
Robert Davidson (Queen's University)

Roy and Spraakman (1996) hypothesized using transaction cost economics as the underlying theoretical framework that the historical London-based Hudson's Bay Company would have well-developed management accounting practices because of its extensive uncertainty and asset specificity. The evidence supported the hypotheses for the fur trading operations during the 1821 to 1860 period.

Compared to the aforementioned frontier period, the Hudson's Bay Company experienced a decrease in uncertainty as communications and transportation modernized with steamboats, telegraph, and railways during the 1860 to 1914 period. In addition, with more modern transportation, the Company's once valuable river and lake network became worthless. The devaluation of the transportation network was equivalent to a decrease in asset specificity. Birch-bark canoes and crude boats were not competitive with steamboats and railways.

With less uncertainty and asset specificity after 1860, transaction cost economics predicts less-developed management accounting practices. Evidence is consistent with that prediction; management accounting practices decreased as uncertainty and asset specificity declined. For example, the extensive use of one, two and three year budgets (called indents) were largely eliminated when ordering was done with the telegraph. The variance analysis, which was done in the annual council (senior manager) meetings, largely stopped with the end of council meetings in 1887. This was replaced with the introduction of the senior position, inspecting chief factor, which had many of the responsibilities of contemporary internal auditors. Also, with telegraph and newspapers, the latest auction prices in London could be known at the trading post, and thus detailed exchange standards were no longer needed for converting European trade goods into furs.

Samedi 31 mai
Séance 3A : La gestion des
coûts

8:45 - 10:15
Salons C/D

Saturday, May 31
Session 3A: Cost
Management

Alternative Valuation Models and the Valuation Parameters of Property-Casualty Insurers' Share Prices

Elizabeth A. Demers¹ (Ph.D. Candidate, Stanford University)

This paper examines the value-relevance of various balance sheet items and earnings streams to the share prices of property-casualty ("P&C") insurance companies under several alternative valuation model specifications. This study extends previous research by providing evidence related to both the *incremental* value-relevance and the *relative information content* of fair values versus historical cost figures for financial assets. I also introduce the use of a dual valuation model, which specifies P&C firm value as a function of a stock component of value (investment assets) and a flow component of value (the underwriting earnings stream), and document the relative informativeness of alternative asset-based, earnings-based, and dual valuation models for the same P&C industry sample. The results are generally consistent with the hypothesis that fair values of financial assets are both incrementally value-relevant and have relatively more information content than historical cost measures with respect to the cross-sectional variation in P&C insurers' share prices. Also as hypothesized, the dual model is more informative with respect to P&C share prices than either of the asset-only or earnings-only model. This latter finding suggests that the stock and flow components in the dual model are capturing different aspects of P&C company value.

¹ Thanks are due to Mary Barth, Don Cram, Christopher Jones, Maureen McNichols, Mohan Venkatachalam, and especially Bill Beaver for comments and suggestions on earlier drafts of this paper. All remaining errors and omissions are my own. The financial support of the Society of Management Accountants of Canada, the Earl F. Chiles Foundation, and the Graduate School of Business, Stanford University, is gratefully acknowledged.

**Samedi 31 mai
Séance 3B : Enjeux en
matière de l'évaluation
d'entreprises**

**8:45 - 10:15
Newman Room**

**Saturday, May 31
Session 3B: Issues in Firm
Valuation**

The Value of Fundamental Analysis in the Canadian Stock Market

**Paul Brockman and Charles Mossman (University of Manitoba)
Dennis Olson (UNBC)**

Stock return predictability has recently attracted considerable attention at least in part due to the growing quantity and quality of confirming empirical evidence. As one of the most prolific of the prediction techniques, fundamental analysis is based on the view that stock prices deviate from their fundamental values and only slowly gravitate back towards these values. Recent research using U.S. data (see, for example, Ou and Penman (1989a) and Holthausen and Larcker (1992) has shown that trading rules based on fundamental analysis could be used to generate abnormal returns. The purpose of this paper is to extend the U.S. studies by measuring the value of fundamental analysis in the Canadian stock market. The results, based on LOGIT regression models using accounting and market variables for TSE- traded firms, confirm the positive findings of previous U.S. studies. Average (annual) abnormal returns ranging from 2.84% to 5.85% are achieved over the period 1982-1993. Based on these and earlier U.S. results, it is apparent that additional research into the value of fundamental analysis is warranted.

**Samedi 31 mai
Séance 3B : Enjeux en
matière de l'évaluation
d'entreprises**

**8:45 - 10:15
Newman Room**

**Saturday, May 31
Session 3B: Issues in Firm
Valuation**

Inferring Equity Values from Analysts' Earnings Forecast

Theodore Sougiannis, Elisabeth Oltheten and Takashi Yaekura
(University of Illinois at Urbana-Champaign)

This paper examines how, and to what extent, a firm's equity value can be inferred from multi-year (finite horizon) earnings forecasts. Our approach focuses on the direct use of earnings forecasts in the valuation process, that is, without adjusting for accruals and without considering the market values of comparable firms, while still maintaining consistency with the generally accepted dividend discount model. From contemporary valuation theory we identify three earnings-based valuation models: a residual income model, an earnings capitalization model, and a model that combines elements of the other two. None of these models can be implemented unless earnings forecasts are accompanied by forecasts of either dividends or book values, or of the firm's premium/discount. In finite horizon valuation, and in the absence of expected premium/discount information, the models differ systematically, implying that different models are appropriate under different conditions. We implement each model to examine the extent to which we can value publicly traded US firms using financial analysts' earnings forecasts for horizons up to five years given the lack of analysts' premium/discount forecasts. Our analysis is based on ex-ante valuation errors calculated by comparing calculated prices with market prices. The empirical analysis (1) confirms that the models differ significantly in finite horizon valuations and identifies the conditions under which each model can be employed, (2) reveals that although the valuations decline as the forecast horizon increases, only a small percentage of firms can be valued with any degree of accuracy, even over a five year horizon, (3) suggests that the market underadjusts the short horizon earnings forecasts and either fully or overadjusts the longer horizon forecasts for analyst bias, and (4) shows that the prediction of expected premiums/discounts will substantially increase the usefulness of earnings forecasts in equity valuation.

Samedi 31 mai
Séance 3B : Enjeux en
matière de l'évaluation
d'entreprises

8:45 - 10:15
Newman Room

Saturday, May 31
Session 3B: Issues in Firm
Valuation

***An Analysis of the Association of Demographic Variables with the
Cognitive Moral Development of Canadian Accounting Students***

Linda E. Thorne (York University)

This study describes the association between demographic variables and the level of moral development of 214 accounting students enrolled in an English-Canadian university. The results of this research indicate that demographic associations identified in American-based accounting-ethics research are found to apply to the Canadian sample. Similar to US-based findings, the level of moral development of the sample of Canadian accounting students is associated with both years of education and gender, with no significant association with age or audit experience. Furthermore, the sample accounting students with English as a mother tongue has a significantly lower level of moral development than the sample of accounting students without English as a mother tongue. Finally, the results also indicate that the level of moral development of the sample of Canadian accounting students is not higher than that of American accounting students with similar demographic characteristics.

**Samedi 31 mai
Séance 3C : Recherche
mettant à contribution des
étudiants canadiens en
comptabilité**

**8:45 - 10:15
Conception Bay**

**Saturday, May 31
Session 3C: Research Using
Canadian Accounting
Students**

***Graduating Accounting Students and Professional Accounting Employment:
Canadian Evidence***

Steven Salterio Ph.D. CA (University of Alberta)

The purpose of this research is to investigate the relationship between the characteristics of accounting graduates and their success in obtaining professional accounting employment. This research provides evidence about reported decisions made by professional accounting employers about interview selection, office visit invitation, and hiring decisions for accounting graduates. The research finds that academic achievement is a major factor influencing graduate success in the professional accounting recruitment process. Other graduate characteristics that influenced recruitment decisions included: university/community involvement, accounting work experience, interview skills, job market beliefs, and satisfaction with accounting-major education. Overall, this research replicates US-based research performed in the 1980's, extends it to an international environment, identifies and tests additional decision-relevant variables and employs a research design that significantly improves on the explanatory power of prior models.

**Samedi 31 mai
Séance 3C : Recherche
mettant à contribution des
étudiants canadiens en
comptabilité**

**8:45 - 10:15
Conception Bay**

**Saturday, May 31
Session 3C: Research Using
Canadian Accounting
Students**

***Auditors' Judgement Performance of a Going-Concern Task:
The Meditating Effect of Informational Abundance
and a Decision Aid***

Anamitra Shome (Concordia University)

Mohamed Ibrahim (Concordia University and The Hong Kong Polytechnic University)

This paper reports the results of an experimental study of the effects of information abundance and decision-aid use on auditors' judgement performance in the context of a going-concern decision. Auditors were proxied by graduate-level accounting students. Participants' judgement performance was measured in terms of subjects' probability estimates of a given firm's ability to continue as a going concern, as well as judgement confidence. The results indicate a significant main effect of decision aid use on subjects' judgement performance in terms of probability estimates and no significant effects in terms of judgement confidence. However, judgement performance was not affected by varying levels of information abundance.

**Samedi 31 mai
Séance 3C : Recherche
mettant à contribution des
étudiants canadiens en
comptabilité**

**8:45 - 10:15
Conception Bay**

**Saturday, May 31
Session 3C: Research Using
Canadian Accounting
Students**

***Accounting-Based Debt Covenant, Loan Renegotiation
and Financial Reporting***

Ping Zhang (Wilfred Laurier University)

A parsimonious two-period model is employed in this paper to study the bank's decision on waiver of debt-covenant violations, loan renegotiation, borrower's dividend policies, and accounting choice. This paper concludes that the borrower does not necessarily have an incentive to manipulate accounting information every time when the debt covenant is going to be breached because either the borrower can receive a waiver from the bank after a violation of the debt covenant, or liquidation of the project is more beneficial to the borrower, or the manipulation is not sufficient to circumvent the debt covenant. This paper delineates the conditions under which the borrower has an incentive to manipulate accounting information. Furthermore, this study describes a relationship among accounting choice, project value, and the debt covenant restriction. It concludes that the accounting choice is not only affected by the fact that the debt covenant is going to be breached, but it is also affected by the project's current value. This paper also examines an optimal dividend policy for the borrower. There are two factors which affect the borrower's dividend policy: (1) the future marginal rate of return of the project and (2) the expected costs of bankruptcy. If the project has a high marginal rate of return in future periods, the borrower would like to keep the funds in the project to earn a high return rather than to withdraw the funds and earn a lower return on other alternative projects. Similarly, if the rate of return of the project is low, then it is better to remove the funds from this project and invest them in another project. Since the draw-down of funds increases the probability of the bankruptcy of the project in the future periods, the optimal dividend policy is to maximize the net value of the above two factors.

**Samedi 31 mai
Séance 4A : La
présentation de
l'information financière -
décisions et motifs**

**10:30 - 11:45

Salons C/D**

**Saturday, May 31
Session 4A: Financial
Reporting - Decisions and
Motives**

***Firm Leverage and Discretionary Accounting Changes:
An Income-Smoothing or Income-Increasing Strategy?***

Raafat R. Roubi and Sandra Felton (Brock University)

This paper examines the accounting policy strategy of a segment of firms that made discretionary accounting changes (DACs) during the period 1980-1991. The purpose of this research is to test whether firm leverage (a proxy measure for tightening debt covenant restrictions) provides an incentive for management who makes DACs to follow an income-smoothing or an income-increasing strategy. Whereas previous contracting literature predicts that highly leveraged firms favour income-increasing changes, the income-smoothing literature suggests that management implements DACs only to bring reported earnings as close as possible to target earnings so as to maintain flexibility to implement more DACs when needed at some future date. Other variables tested include change in debt level, deviation of prechange income from target, and firm size. The results from testing a nonrandom sample of 102 Canadian annual reports indicate firm leverage to be the most significant variable for explaining differential smoothing. While less significant, the change in firm leverage and the deviation of prechange income from target are also consistently positively related with income smoothing. A test of the competing hypothesis (i.e., highly leveraged firms are more likely to follow an income-increasing strategy) indicates no significant association between leverage, the change in leverage and an income-increasing strategy in making accounting choices. Finally, our tests reveal no association between firm size and income smoothing or income increasing strategy.

**Samedi 31 mai
Séance 4A : La
présentation de
l'information financière -
décisions et motifs**

10:30 - 11:45

Salons C/D

**Saturday, May 31
Session 4A: Financial
Reporting - Decisions and
Motives**

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